FOOTHILLS

Oil & Gas Ltd.

ANNUAL REPORT

DECEMBER 31, 1998

CORPORATE PROFILE

Foothills Oil & Gas Ltd. is a Calgary based, public oil and gas company. It is engaged in the production, acquisition and development of hydrocarbons in Canada. Management is currently pursuing growth through the acquisition of producing properties where it has identified future upside potential. The common shares of the Company are listed for trading on the Alberta Stock Exchange under the symbol "FH".

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ANNUAL GENERAL MEETING

Shareholders and members of the public who are interested in receiving more information are invited to attend the Company's Annual Meeting to be held at the offices of Macleod Dixon, 3700, 400 - 3rd Avenue S.W., Calgary, Alberta at 9:00 a.m. on Tuesday, June 22, 1999.

HIGHLIGHTS

		December 31, 1998		December 31, 1997
Production				
Oil and natural gas liquids (barrels per day)		64		38
Sales price (per barrel)		$ 14.30		$ 20.71
Natural gas (thousand cubic feet per day)		464		54
Sales price (per thousand cubic feet)		$ 1.76		$ 1.70
Barrels of oil equivalent per day		111		43
Reserves (barrels of oil equivalent)		680,000		217,193
Financial				
Revenue (before royalties)	$	634,265	$	320,992
Cash flow from operations before changes in working capital	$	131,240	$	21,222
per common share (basic)	$	0.01	$	0.00
Net earnings (loss)	$	(72,033)	$	(391,225)
per common share (basic)	$	(0.01)	$	(0.04)
Capital expenditures	$	1,691,408	$	879,828
Working capital	$	25,458	$	7,021
Common shares outstanding (year-end)		13,295,000		11,715,000
Common shares outstanding (weighted average)		12,490,178		10,042,671

Report to Shareholders

This Annual Report covers the twelve month period from January 1, 1998 to December 31, 1998.

1998 was a significant year for growth with the acquisition of producing properties in the Chigwell area of central Alberta. Acquired at mid year, the Chigwell property has increased the Company's production from levels of approximately 45 barrels of oil equivalent to levels exceeding 150 barrels of oil equivalent by year end. Reserves have also increased significantly from 217,000 barrels of oil equivalent at the end of 1997 to 680,000 by the end of 1998. Natural gas now constitutes 51% of total reserves compared to 5% a year earlier. Despite materially lower oil prices, the value of the Company's reserves has increased from $1.3 million to $4.6 million at January 1, 1999.

During July and August, 1998, the Company completed a $395,000 private placement with the issuance of 1,058,000 common shares at $0.25 per share. These shares were issued on a flow-through basis.

Management has aggressively pursued growth opportunities over the past year despite extremely low oil prices. To this end, the Company has entered into an agreement to acquire all of the outstanding shares of Titania Resources Ltd., a private oil and gas company.

This acquisition is expected to add approximately 60 barrels of oil equivalent to the Company's production base as well as 225,000 barrels of oil equivalent in total reserves of which over 80% is proven. The acquisition consists of high quality oil production with approximately 75% of the production operated by Titania. Closing of this transaction is expected to occur by the end of May, 1999.

Although the first quarter of 1999 will see even lower oil prices, higher prices beginning in March, 1999 will begin to restore oil revenues and upside. Management, directors and staff look to the upcoming year with enthusiasm.

William J. Kiff
President

OPERATIONS

During the past twelve month period, the Company produced an average 64 barrels of oil and natural gas liquids per day compared to 38 barrels per day during 1997. Natural gas production for the period was 464 thousand cubic feet per day compared to 54 thousand cubic feet per day a year earlier. Revenue for the period increased to $634,265 from $320,992 in 1997. Cash flow from Operations was $131,240 compared to $21,222 while the loss for the period decreased to $72,033 from $391,225 a year earlier. Production and revenues from the newly acquired Chigwell property were recorded beginning June 1, 1998.

RESERVES

The Company's oil and gas reserves, all located in Canada, were evaluated by NRC Consulting Ltd. effective January 1, 1999.

Total oil and natural gas liquids reserves net to Foothills increased to 330,000 barrels compared to 207,311 barrels a year earlier while total natural gas reserves net to the Company were 3,499,000 thousand cubic feet compared to 98,820 thousand cubic. Proved reserves account for 94% of the Company's total reserves.

COMPANY WORKING INTEREST RESERVES BEFORE ROYALTIES
as at January 1, 1999

	Crude Oil (barrels)	Natural Gas (mcf)	Present Value 15% DCF ($)
Proved			
Producing	126,000	1,396,000	$2,254,000
Non-Producing	162,000	2,103,000	$2,290,000
Total Proved	288,000	3,499,000	$4,544,000
Probable	42,000	0	$ 120,000
Total	330,000	3,499,000	$4,664,000

AUDITORS' REPORT

To the Shareholders of
Foothills Oil & Gas Ltd.

We have audited the balance sheets of **Foothills Oil & Gas Ltd.** as at December 31, 1998 and 1997 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Canada
May 14, 1999

Chartered Accountants

Foothills Oil & Gas Ltd.

BALANCE SHEETS
as at December 31

	1998 $	1997 $
ASSETS		
Current		
Cash	**11,764**	14,626
Accounts receivable	**141,597**	56,598
Inventory, prepaid expenses and deposits	**25,144**	29,074
	178,505	100,298
Property and equipment *(note 3)*	**2,560,344**	1,172,627
	2,738,849	1,272,925
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**153,047**	93,277
Current portion long-term debt	**360,000**	-
	513,047	93,277
Long-term debt *(note 4)*	**1,010,000**	170,000
Abandonment and site restoration provision	**28,200**	19,600
	1,551,247	282,877
Shareholders' equity		
Share capital *(note 5)*	**1,680,815**	1,411,228
Deficit	**(493,213)**	(421,180)
	1,187,602	990,048
	2,738,849	1,272,925

See accompanying notes.

Approved by the Board

Signed

Signed

STATEMENTS OF LOSS AND DEFICIT
for the years ended December 31

	1998 $	1997 $
Revenue		
Petroleum and natural gas sales	**634,265**	320,992
Royalties, net of Alberta Royalty Tax Credit	**(48,428)**	(28,769)
	585,837	292,223
Expenses		
Operating expenses	**227,741**	146,799
General and administrative *(note 3)*	**162,421**	121,027
Interest	**64,435**	10,675
Depletion, depreciation and site restoration *(note 3)*	**203,273**	422,247
	657,870	700,748
Loss for the year	**(72,033)**	(408,525)
Recovery of deferred income taxes *(note 6)*	**-**	17,300
	(72,033)	(391,225)
Deficit, beginning of year	**(421,180)**	(29,955)
Deficit, end of year	**(493,213)**	(421,180)
Loss per share		
Basic and fully diluted *(note 7)*	**(0.01)**	(0.04)

See accompanying notes.

Foothills Oil & Gas Ltd.

STATEMENTS OF CASH FLOWS
for the years ended December 31

	1998 $	1997 $
Operating		
Net loss for the year	**(72,033)**	(391,225)
Add items not requiring cash		
Depletion, depreciation and site restoration	**203,273**	422,247
Deferred income tax	**-**	(9,800)
Cash flow from operations	**131,240**	21,222
Changes in non-cash working capital items	**(21,298)**	42,232
Cash provided by operating activities	**109,942**	63,454
Financing		
Issuance of common shares, net of issue costs	**378,604**	517,600
Bank loan	**1,200,000**	170,000
Cash provided by financing activities	**1,578,604**	687,600
Investing		
Acquisition of properties	**(1,376,465)**	-
Expenditures on property and equipment	**(314,943)**	(879,828)
Cash used in investing activities	**(1,691,408)**	(879,828)
Decrease in cash during the year	**(2,862)**	(128,774)
Cash, beginning of year	**14,626**	143,400
Cash, end of year	**11,764**	14,626
Cash flow from operations per share		
Basic and fully diluted *(note 7)*	**0.01**	0.00

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

1. BASIS OF PRESENTATION

Foothills Oil & Gas Ltd. (the "Company") was incorporated under the provisions of the Business Corporations Act (Alberta) on September 3, 1993.

2. SIGNIFICANT ACCOUNTING POLICIES

Property and equipment

Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas properties in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs related to the acquisition of, exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in a Canadian cost centre and charged to income as set out below.

Capitalized costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, equipment costs and general and administrative costs directly related to exploration and development activities.

Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

Depletion and depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment is provided using the unit-of-production method based on estimated gross proved petroleum and natural gas reserves as determined by independent engineers. Depreciation of production equipment is based on the cost of the assets net of estimated salvage or residual value. The relative amounts of oil and gas production are converted at a ratio of ten thousand cubic feet of gas to one barrel of oil.

Office furniture and fixtures are carried at cost and depreciated over the estimated useful lives of the assets at a rate of 20% calculated on a declining balance basis. Depreciation is charged at half rates in the year of acquisition.

Ceiling test

The Company applies an annual ceiling test to the net carrying value of petroleum and natural gas properties to ensure that such costs do not exceed the estimated amount ultimately recoverable. This amount includes the estimated value of future net revenues from production of proven reserves and the cost of unproved properties, net of an impairment allowance, less future estimated production related general and administrative expenses, financing expenses, estimated future abandonment and site restoration costs and income taxes. Future net revenues are estimated using yearend wellhead prices and costs without escalation or discounting, and the income, capital tax and Alberta royalty tax credit legislation in effect at year end. Any reduction in value, as a result of the ceiling test, is charged to operations.

NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

Future abandonment and site restoration costs

The estimated cost of future abandonment and site restoration is based on the current costs and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. The annual charge, provided for on a unit of production basis, is accounted for as an expense. Abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for future site restoration costs are based on estimates. The ceiling text calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Flow-through shares

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the properties acquired and the shares issued are recorded net of the tax benefits renounced to subscribers as the related expenditures are incurred.

Joint operations

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Financial instruments

Financial instruments of the Company consist mainly of cash, accounts receivable, accounts payable, accrued liabilities and long-term debt. As at December 31, 1998 and 1997, there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

3. PROPERTY AND EQUIPMENT

	December 31, 1998			December 31, 1997		
	Cost $	Accumulated depletion and depreciation $	Net book value $	Cost $	Accumulated depletion and depreciation $	Net book value $
Petroleum and natural gas properties and equipment	**3,195,894**	**655,100**	**2,540,794**	1,614,447	469,900	1,144,547
Office furniture and fixtures	**40,014**	**20,464**	**19,550**	39,071	10,991	28,080
	3,235,908	**675,564**	**2,560,344**	1,653,518	480,891	1,172,627

NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

During the year ended December 31, 1998, the Company capitalized general and administrative expenditures of $160,766 (1997 - $118,000) related to exploration, development and acquisition activities.

During the year, the Company reduced the carrying value of petroleum and natural gas properties by $109,017 (1997 - $9,800) to recognize the foregone tax benefits to the Company of qualifying exploration and development expenditures incurred and renounced to the purchasers of its flow-through shares.

As at December 31, 1998, petroleum and natural gas properties include $ 354,150 (1997 - $209,800) relating to unproved properties which have been excluded from the depletion calculation. As a result of the ceiling test calculation, the Company reduced the carrying value of its petroleum and natural gas properties by $ nil (1997 - $310,000). This amount was included in depletion expense and accumulated depletion.

4. LONG-TERM DEBT

During the year the Company increased its revolving reducing loan facility to $1,460,000 which bears interest at the bank's prime rate plus .75%. The maximum principal amount available is permanently reduced and repaid by $30,000 per month commencing October 1, 1998. A general assignment of assets and a fixed and floating debenture in the amount of $5,000,000 have been pledged as collateral.

5. SHARE CAPITAL

Authorized

Unlimited common shares without par value
Unlimited non-voting, first and second preferred shares, issuable in series
The directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attaching to all of the preferred shares.

Common Shares Issued and Outstanding	Number of Shares	$
Balance, December 31, 1996	**9,420,000**	**886,228**
Shares issued pursuant to private placements	2,205,000	547,150
Exercise of stock options	90,000	9,000
Share issue costs	-	(38,550)
Deferred tax	-	7,400
Balance, December 31, 1997	**11,715,000**	**1,411,228**
Flow-through common shares issued pursuant to private placements	1,580,000	395,000
Share issue costs	-	(16,396)
Tax benefits renounced	-	(109,017)
Balance, December 31, 1998	**13,295,000**	**1,680,815**

(a) During 1998, the Company issued 1,580,000 flow-through common shares pursuant to private placements at a price of $0.25 per common share.

(b) During 1998, the Company renounced for income tax purposes, exploration and development expenditures in the aggregate of $ 395,000 (1997 - $240,625). To recognize the foregone tax benefits relating to the renounced expenditures, the carrying values of property and equipment and share capital have been reduced by a total of $109,017 in respect of the incurred expenditures. At December 31, 1998, the Company has $366,805 of remaining expenditures to incur in 1999.

NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

Common Shares Reserved for Employees and Consultants

Under the terms of the Company's stock option plan, 10 per cent of the issued common shares are reserved for issuance. At December 31, 1998, the Company had the following stock options outstanding:

Number of options	Price per option	Expiry Date
725,000	$0.10	March 1, 2001
40,000	$0.14	September 25, 2001
230,000	$0.22	November 26, 2002
175,000	$0.24	May 1, 2003

6. INCOME TAXES

The provision for income taxes differs from the calculated tax obtained by applying the combined statutory Canadian federal and provincial tax rate to the income before taxes as follows:

	December 31	
	1998	1997
	$	$
Corporate tax rate	44.34%	44.34%
Pretax loss	(31,939)	(181,140)
Share issue costs	(4,830)	(7,320)
Non-deductible royalties (net)	1,994	7,640
Resource allowance	(8,227)	(3,110)
Non-deductible depletion and depreciation	43,002	166,630
Recovery of deferred tax	-	(17,300)

At December 31, 1998, the Company had exploration and development costs, undepreciated capital costs and unamortized share issue costs available for deduction against future taxable income of approximately $2,600,000. In addition, the Company had approximately $ 90,000 of non-capital loss carryforwards available for application against income for tax purposes, which expire commencing in 2001, the tax benefits of which are not reflected in the accounts.

7. PER COMMON SHARE AMOUNTS

The calculations of loss and cash flow from operations per share is based on the weighted average number of common shares outstanding during the year ended December 31, 1998 of 12,490,178 (1997 - 10,042,671). The fully diluted weighted average number of shares outstanding during the year ended December 31, 1998 is 13,602,644 (1997 - 10,807,671).

NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

8. COMMITMENTS

The Company has future operating lease obligations for office premises as follows:

1999	-	$21,720
2000	-	$21,720
2001	-	$ 9,050

9. YEAR 2000 UNCERTAINTY

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the Year 2000 dates are processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

10. SUBSEQUENT EVENT

The Company has signed an agreement to purchase a private oil and gas company. The acquisition will be paid for by issuing 1,300,000 common shares, $ 600,000 convertible subordinated 11% debenture and $ 500,000 cash. The transaction is expected to close prior to the end of May, 1999.

CORPORATE INFORMATION

DIRECTORS

Kevin A. Kelly
Managing Director
RBC Dominion Securities (Global) Limited
Nassau, Bahamas

William J. Kiff
President of the Company
Calgary, Alberta

Susan J. McArthur
President, McArthur & Associates
Toronto, Ontario

Raymond A. Siwiec
President, First Canadian Energy Ltd.
Calgary, Alberta

OFFICE

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AUDITORS

Barr Shelley Stuart
Calgary, Alberta

OFFICERS

William J. Kiff
President

Charles W. Berard
Corporate Secretary

Wayne D. Fast
Vice President

SOLICITORS

Macleod Dixon
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Symbol: FH

Abbreviations

bbl	barrels
boe	barrels of oil equivalent
mcf	thousands of cubic feet
ARTC	Alberta Royalty Tax Credit